Building Relationships

2002
Annual Report

SaskWater
The Quality Advantage

2002 Annual Report | Building Relationships

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Letter of Transmittal

Regina, Saskatchewan
March 31, 2003
To Her Honour

The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Dear Lieutenant Governor:

I have the honour to submit herewith the annual report of SaskWater for the year ending December 31, 2002. The annual report includes the financial statements and auditor's report in the form approved by Crown Investments Corporation, and in accordance with **The Saskatchewan Water Corporation Act.**

Respectfully submitted,

Ron Osika
Minister Responsible for SaskWater
Chair of the Board

TOP OF SLOPE
RIVER LOT 32
NW 1/4-SEC29
TWP 42-RGE 1-W3M
REGIONAL WATER SUPP
RIVER PUMP STA
SHOWING
PLAN PROFIL
RIVER INTAKE & SITE
TWP. 42 RGE. 1
OCT-20-85
Plan No. WS12-02-004

Building RELATIONSHIPS

Minister's Message

I have had the pleasure of working closely with the SaskWater Executive Team and Board of Directors throughout a significant year in the history of SaskWater.

This past year new legislation refocused SaskWater as a commercial Crown corporation providing quality water and wastewater services. While the corporation has the same name as the former Crown corporation, its mandate is different. I appreciate all the work that the management team and employees have done this year in order to prepare the company for its new opportunities.

It has also been my pleasure to be part of the relationships the company has developed and strengthened this year and which have become the theme of this year's report—"Building Relationships."

Sincerely,

Ron Osika
Minister Responsible for SaskWater

Photo: Ron Osika and Saskatchewan Urban Municipalities President Mike Badham recognizing the SUMA SaskWater Infrastructure Partnership

President's Message

2002 will be remembered as a "landmark" year in the history of SaskWater. This was the year that the provincial government developed a Drinking Water Strategy that drove changes throughout government. To SaskWater, the impact was significant. The division of SaskWater that had been functioning as a water utility became the refocussed SaskWater, a commercial subsidiary of Crown Investments Corporation, with a mandate of providing expanded water and wastewater services and products to Saskatchewan communities. The division of SaskWater that had responsibility for water resource management and water infrastructure management joined with the Saskatchewan Wetlands Conservation Corporation to create a Treasury Board Crown called the Saskatchewan Watershed Authority.

"Building Relationships" is the theme of this year's Annual Report—a theme chosen to reflect SaskWater's new role as a partner and solutions provider to numerous Saskatchewan communities. This year's Annual Report tells two stories. One is about the various initiatives, including our commitment to Total Quality Water Management, that SaskWater has undertaken to build value for customers. The other story is about taking this value to our partners and about how we work with them to build infrastructure, service and health that contributes to our shared future.

I mentioned our commitment to building value to customers though Total Quality Water Management (TQWM). In 2003, we will be well into implementation of this framework for the company. TQWM recognizes that our "product" is an essential part of our customers' lives and that their expectations are high, as they should be.

President's Message

TQWM represents an evolution of our core business of water treatment and transmission. These lines of business, which until now have been primarily bulk sales of water to a municipal or industrial client, will be overlaid with a TQWM approach that provides more value to the customer. Rather than simply deliver water, SaskWater will also offer technical and management services for the customer's water utility, reducing the customer's risk. This Annual Report includes a section with more information about TQWM and what it will mean to SaskWater and to our customers.

You may have noticed that SaskWater has adopted a new logo as a reflection of the significant changes in the company's direction. The new logo is an abstract representation of what happens to a body of water when a single drop of water hits the surface. The concentric ripples travel over the entire body of water and represent the number of new services we offer throughout the province as a result of our new mandate and focus.

Needless to say, 2002 has been a challenging year for both those employees currently associated with SaskWater and for those who are now part of other organizations focussing on different aspects of water management. Please accept my thanks for your commitment and professionalism.

Submitted respectfully

Stuart Kramer

Building TEAMWORK

Corporate Summary

The new SaskWater was established October 1, 2002 with the proclamation of **The Saskatchewan Water Corporation Act** (2002). Through this Act, SaskWater became a commercial Crown corporation providing water, wastewater and related services to municipal, industrial, government and domestic customers in the province. As a result of this Act, all water resource management activities were transferred to the Saskatchewan Watershed Authority. Those activities are included as "discontinued operations" in SaskWater's 2002 Annual Report.

Employees

Headquartered in Moose Jaw, the new SaskWater has approximately 70 permanent employees and offices in Watrous, Nipawin, Prince Albert, Saskatoon, Hanley, Wakaw and Melfort. Average operating revenue per employee of $200,000 compares favourably to other Crowns and water utilities.

Vision

To be Saskatchewan's leader in delivering water and wastewater services, building customer, employee and shareholder value through partnership and quality management.

Mission

To provide competitively-priced, customer-focussed, quality, water and wastewater services.

Values

Honesty and integrity are the foundation of our company and we conduct our business in a manner consistent with the highest ethical standards.

Open communication within our Executive and between Executive and employees is vital to our success.

We are committed to excellence and quality in everything we do.

We demonstrate good corporate citizenship by caring for the environment and the communities in which we operate.

Photo: A team at work in SaskWater's regional water treatment plant near Wakaw. Shahid Khan, Water and Wastewater Engineering Manager; Karen Daku, Senior Business Development Manager; Darin Orb, Senior Technologist; Randon Swann, Operator; Craig Standish, Technician; Sean Kopchuk, Technician; Chris Peterson, Operator.

Corporate Summary

Principles

Partnership—SaskWater's partnerships are key to its growth. We partner with our customers, businesses, engineering firms and suppliers.

Value—We deliver and recognize value. For customers, we provide value with competitive pricing and superior service and products. We recognize the value of our employees and treat them as key assets. We deliver value to the business with innovative, proven technology and value engineering.

Trust—built through quality management of our operations, of systems we design and in our management and governance.

Customers

46 municipal customers (30,000 Saskatchewan residents)

34 industrial customers

1,300 individual households in rural areas

Operations

SaskWater currently owns and operates 23 regional water supply systems, 5 municipal water treatment systems, 2 wastewater treatment systems and 4 irrigation projects in the province.

2002 Results

- Loss was $3.3 million ($2.0 million for utility operations and $1.3 million from discontinued operations). (2001 – $4.2 million loss comprised of $0.3 million from utility operations and $3.9 million from discontinued operations).
- Revenues were $14.5 million (2001 - $14.8 million restated).
- Expenses were $16.5 million (2001 - $15.1 million). Expenses for 2002 increased as a result of including administrative expenses which were not included as a utility specific expense in previous years.
- Debt was $49.6 million (2001 - $41.1 million)
- Capital spending of $5.7 million (2001- $0.9 million) was primarily for construction of the Cory Cogeneration and Town of Hague pipeline projects.
- Interest paid was $3.3 million. (2001 – $3.4 million).
- Expansions resulted in over 1,000 additional Saskatchewan residents receiving improved quality drinking water.

Corporate Summary

Key Performance Factors

Industrial demand--One third of SaskWater's revenue is dependant upon demand from the fertilizer sector.

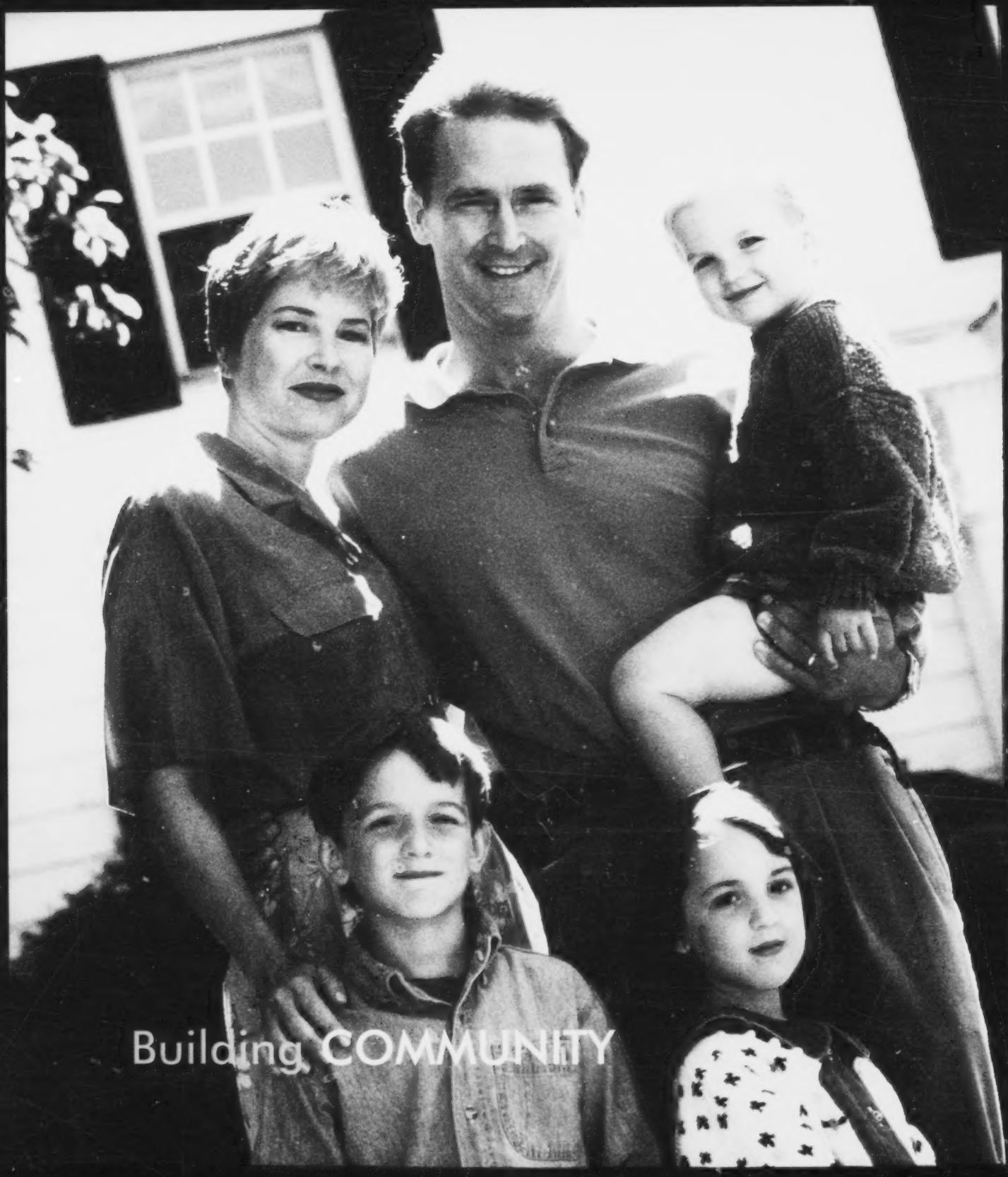
Regulation--Strengthened regulation creates demand for more services throughout the water industry.

2003 Outlook

- Results are expected to be similar to 2002.
- SaskWater expects to invest $10.5 million in municipal and industrial water supply and treatment infrastructure projects in the province.
- Net water sales revenues are expected to remain stable or rise marginally.
- Actions by the regulator (Saskatchewan Environment) are expected to create more demand in the province for SaskWater's products and services, beginning in 2003 and growing over the next few years.

Key Financial Data

- Total assets of $70.1 million. (2001- $70.3 million)
- SaskWater is incurring losses and is not expected to declare a dividend to CIC in 2003.
- Debt to equity ratio of 77.3 percent compares favourably to other water utilities in the early stages of growth. (Due to the re-organization the 2001 figure is not comparable.)
- As a result of corporate re-focussing as a commercial Crown, SaskWater no longer receives funds from the General Revenue Fund.


Building COMMUNITY

Corporate Citizenship

SaskWater's values shape our relationships, business operations and decision-making. We strive to meet the expectations of Saskatchewan people in all that we do.

Diversity

SaskWater values its diverse and professional workforce. We recruit and retain employees from designated equity groups—aboriginal persons, persons with disabilities, women in non-traditional roles and management, and visible minorities. This year we advised seventeen outreach agencies of available work opportunities including:

- Canada Immigrant Women of Saskatchewan
- South Saskatchewan Independent Living Centre (SSILC)
- Metis Employment & Training Institute
- Multicultural Council of Saskatchewan
- Women in Trades & Technology

In 2002, 21% of our new employees belonged to diversity groups.

Education

SaskWater offers eight month work placements though a co-operative work/education program. In 2002, six students from SIAST participated, and one student from the University of Saskatchewan. SaskWater also offers a 16 month work placement to an Engineering intern. In 2003, SaskWater will offer a University scholarship worth $3,000 to a diversity candidate studying engineering or business in Saskatchewan.

Community

SaskWater employs about 70 permanent, full-time people, actively involved in seven different communities.
SaskWater purchases the bulk of its products and services in Saskatchewan. In 2002, the Corporation made 86.8 % of its total purchases in Saskatchewan ($9.3 M).
SaskWater's sponsorship program supports its commitment to diversity, community-building and education. In 2002 we supported 170 community organizations.

Employees

SaskWater recognizes the commitment and dedication of its employees. Each year we recognize employees who reach the milestones of 5, 10, 15, 25, 30, and 35 years of service. In 2002, 39 employees were honoured, representing a total of 815 years of combined service.

Union Partnership

We respect our Union partnership. Our Executive team meets regularly with the Communications, Energy and Paperworkers Union Local 820 Executive to encourage open communication and a close working relationship. Our Board of Directors includes a position designated for a labour representative chosen by the Union.

Water Treatment

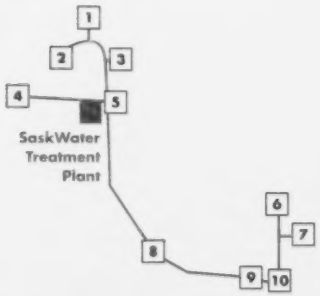
SaskWater's water treatment business includes both "stand-alone" water systems and regional systems. The Corporation owns and operates three stand-alone plants (in Gravelbourg, Edenwold and Pierceland) and two large plants that produce water for regional systems in central Saskatchewan.

Regional Systems—Treatment

The regional water system shown below begins with a pump station on the South Saskatchewan River west of Wakaw. The pump station pumps river water to a water treatment plant just outside Wakaw. The plant employs five full-time operators and includes an on-site laboratory for water analysis. Once produced, the water is pumped to customers through approximately 190 kilometres of pipeline ranging in diameter from 150 mm to 350 mm. The system supplies some of the best quality water in the province to almost 8,500 people in nine communities (Hoey, St. Isidore-de-Belleuve, Domremy, Wakaw, Bruno, Humboldt, Muenster, Annaheim and Lake Lenore) and

A. SaskWater Regional Treatment System - Humboldt area

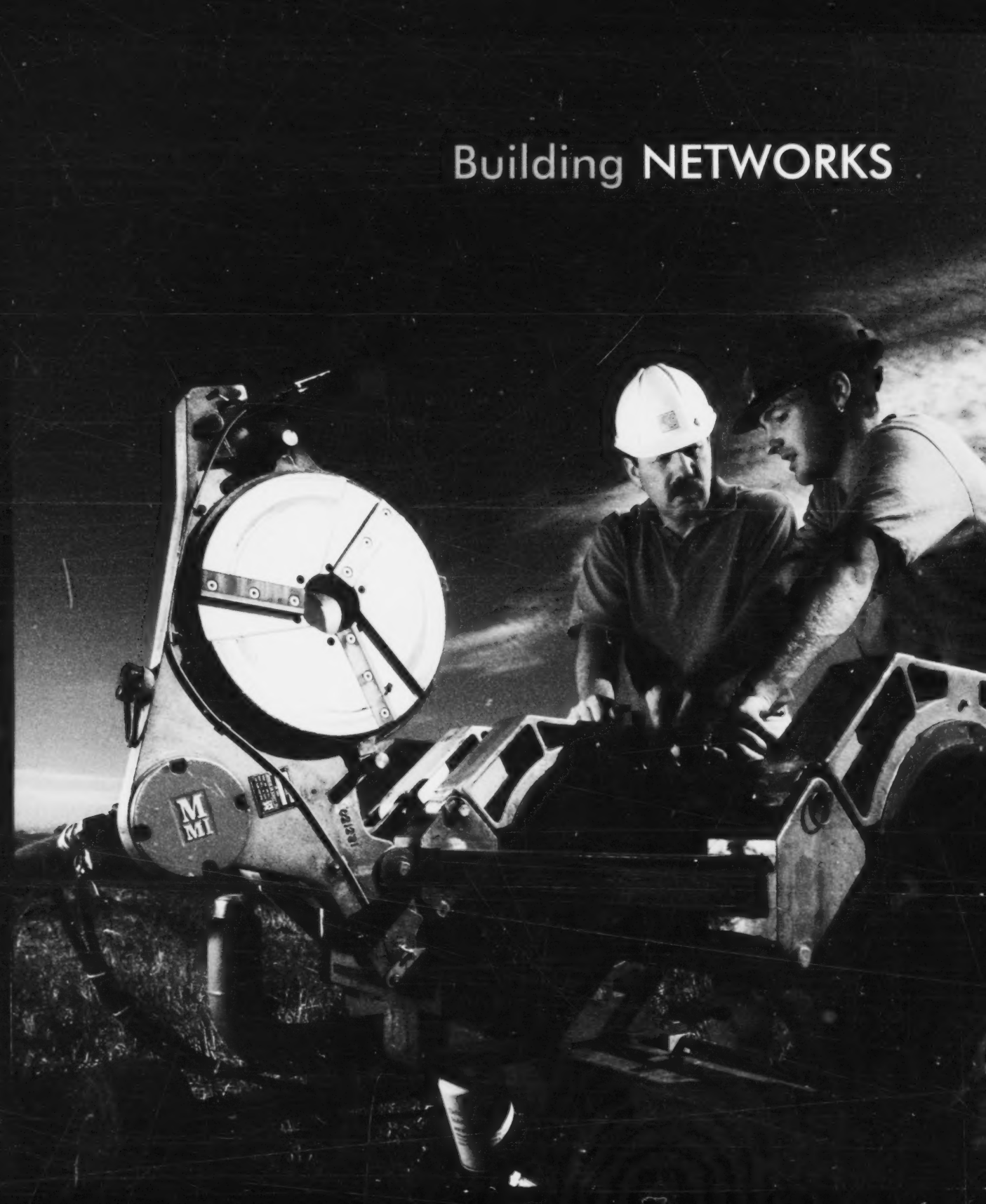
1 Hoey
2 St. Isadore-de-Bellvue
3 Domremy
4 River Pump station
5 Wakaw
6 Lake Lenore
7 Annaheim
8 Bruno
9 Humboldt
10 Muenster



eight rural municipalities (St. Louis, Bayne, Humboldt, Fish Creek, St. Peter, Invergorden, Hoodoo, and Lake Lenore). Numerous individual households are connected to the system as well. SaskWater invested $26.4M to build the system in 1996. SaskWater continues to explore opportunities to add more customers to this regional system.

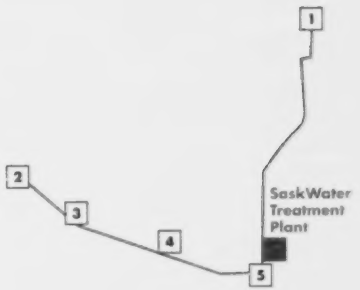
Photo: Cal Stewart, Senior Technologist, and contractor's employee fuse pipe as part of the expansion of SaskWater's regional water system to the Town of Hague

Building NETWORKS



B. SaskWater Regional Treatment System - Melfort area

1 Codette Lake Pumping Station
2 Weldon
3 Kinistino
4 Beatty
5 Melfort



The regional system shown in the above diagram begins with a pump station on Codette Lake and 52 kms of pipeline that delivers river water to the water treatment plant in Melfort. About 42 kilometres of pipeline delivers water to three towns in addition to Melfort (Beatty, Kinistino, and Weldon) and numerous rural households. About 7,800 people are supplied with water in total. The system has a replacement value of $26M and some capacity for expansion.

Stand-alone systems

SaskWater owns and operates stand-alone water treatment systems in Gravelbourg, Edenwold and Pierceland.

The Corporation invested $1.7M to build the Gravelbourg system In 1997. About 11 kilometres of 200 mm diameter pipeline transfers raw water from Thomson Reservoir to the Town where it is treated in SaskWater's $1M plant. The Corporation provides the water "in bulk" to the Town which operates its own distribution and wastewater system.

SaskWater recently acquired ownership and operation of the water treatment system in the Village of Edenwold. Edenwold has surface water similar to Gravelbourg's -warm and shallow- creating the ideal environment for the growth of organic material.

Water Treatment

Residents of Edenwold had complained about the odour of the treated water. SaskWater was able to make improvements in the system that resulted in improved quality. Now that the customer is enjoying a better quality product, SaskWater is evaluating other options that may provide for a more reliable supply.

SaskWater invested $1.2M to build a conventional groundwater (well water) treatment system for the Village of Pierceland, population 450. Working with this customer added expertise in groundwater treatment to SaskWater's extensive experience with surface water treatment.

Operational results

In 2002, water treatment accounted for 24% of the Corporation's total operating revenues.

Volumes

(gallons)	2002	2001	Change	%
Total	532,000,000	551,000,000	(19,000,000)	(3.4%)

Volumes decreased in 2002. 2001 had been a record year for sales because of wide-spread drought. The drought eased in late 2002 in much of the province and volumes began to return to normal.

Operating Revenues

($ millions)	2002	2001	Change	%
Total	$3.55	$3.57	($0.02)	(0.6%)

Operating revenues decreased by 0.6% due to reduced sales volumes.

Operating Expenses

($ millions)	2002	2001	Change	%
Total	$1.56	$1.45	($0.11)	(0.08%)

Operating expenses increased slightly because of increased labour, electricity and other costs.

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Building RECREATION

Water Transmission

The water transmission business sources water from other utilities and re-sells it, or sources and supplies raw water.

Transmission—Treated Water

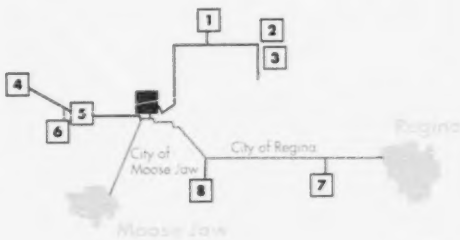
A. SaskWater Treated Water Transmission - Saskatoon area

1 Hague
2 Osler
3 Dalmeny
4 Warman
5 Martensville
6 Sterling Pulp Chem. & Akzo Chem.
7 Industrial Customers
8 Royal View Cattle
9 United Chemicals
10 Sunset Estates
11 Grasswood
12 Clavet
13 Elstow
14 Bradwell
15 Allan

This system above sources water through interconnections with the City of Saskatoon and delivers water to nine communities (Martensville, Warman, Osler, Hague, Dalmeny, Clavet, Bradwell, Allan and Elstow) as well as several industrial customers and many rural households. In 2002 SaskWater completed a $2.6 million expansion of the system to the Town of Hague.

B. SaskWater Treated Water Transmission - Buffalo Pound area

1 Bethune
2 Arm River Colony
3 Disley
4 Marquis
5 Tuxford
6 Simplot Chemicals
7 Grand Coulee
8 SaskFerco



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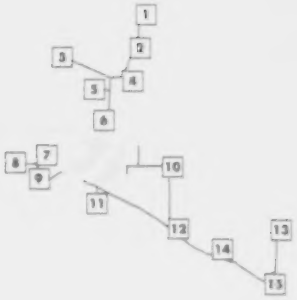

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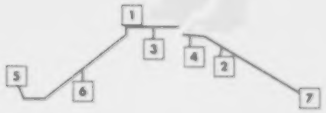
The above system purchases water from the Buffalo Pound Water Administration Board and the City of Regina and supplies it to five communities and rural users. SaskWater also operates its own pumping units within the Buffalo Pound Treatment Plant and supplies water to the communities of Bethune, Disley, Marquis, and Tuxford. As well, SaskWater owns and operates a pipeline that interconnects with the City of Regina's pipeline from the Buffalo Pound Treatment Plant. This SaskWater pipeline delivers water to the Village of Grand Coulee.

Transmission—Raw Water

C. SaskWater Raw Water Transmission System - Saskatoon area

1 PCS Cory and Cory Cogen
2 Golf Courses
3 Cedar Villa
4 Riverside Estates
5 Agrium Potash
6 Vanscoy
7 Cargill



The pipeline system above began operation in the late 1960's, with recent expansions. Customers include the PCS Cory and Agrium potash mines, three golf courses on the south east side of Saskatoon, the Village of Vanscoy, the Cargill Canola Crushing Plant near Clavet, and other smaller industrial customers and rural holdings. In 2002 SaskWater completed a $3.2M system upgrade in order to supply the new Cory Cogeneration Power Station.

SaskWater's Saskatoon Southeast Water Supply System (SSEWS) in the following diagram is a multi-purpose water supply system built in the mid 1960's to supply water from Lake Diefenbaker to potash mines, irrigators and municipalities, as well as for recreation and wildlife projects. The system includes 158 km of canals, six reservoirs and a number of associated pipelines. Major industrial and municipal customers include three potash mines, and the communities of Hanley, Thode, Shields, Viscount, Guernsey, Lanigan and Broderick.

Water Transmission

D. SaskWater Raw Water Transmission System - SSEWS

1 IMC Colonsay
2 Viscount
3 PCS Allan
4 Guernsey
5 Lanigan
6 PCS Lanigan
7 Shields
8 Thode
9 Hanley
10 Broderick
11 East Side Pumpstation

The system below (left), was constructed in 1994 to supply water from Buffalo Pound Lake to the SaskFerco Fertilizer Plant near Belle Plaine. Each year, SaskFerco uses about the same amount of water that a city the size of Swift Current would use. The system also supplies water to rural holdings in the area.

E. SaskWater Raw Water Transmission System - Buffalo Pound area

F. SaskWater Raw Water Transmission System - Regina East

A well in the Zehner Aquifer near Regina supplies water for the system above (right). SaskWater distributes the water to White City, Emerald Park and rural customers.

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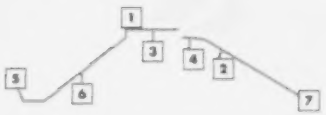

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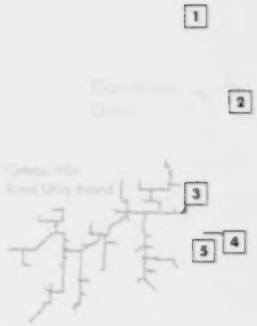
A well in the Zehner Aquifer near Regina supplies water for the system above (right). SaskWater distributes the water to White City, Emerald Park and rural customers.

Water Transmission

G. Diefenbaker Lake Area Water Supply

1 Broderick
2 East Side Pumpstation
3 Luck Lake Pumpstation
4 Riverhurst
5 Riverhurst Pumpstation



SaskWater has three irrigation pump stations on Lake Diefenbaker which, in addition to irrigation customers, provide water to the Village of Riverhurst, the Coteau Hills Rural Water Pipeline, the Cutbank Rural Pipeline Utility and other rural customers in the area.

Operational results

In 2002, transmission accounted for 54% of total operating revenues. (35% raw water transmission and 19% treated water transmission.)

Transmission - Raw

Volumes

(gallons, billions)	2002	2001	Change	%
Total	2.65	2.76	(0.11)	(4.0%)

Volumes decreased due to normal year to year variances in industrial water demand.

Operating Revenues

($ millions)	2002	2001	Change	%
Total	$5.09	$5.05	$0.04	0.8%

Even though volumes were down, operating revenues increased slightly because of a rate increase implemented in mid 2001.

Operating Expenses

($ K)	2002	2001	Change	%
Total	$788	$825	($37)	(4.5%)

Operating expenses declined by 4.5% which represents a return to normal expenses. Operating expenses had been high in 2001 because an electrical equipment failure created unusual costs.

Water Transmission

Transmission - Treated

Volumes

(gallons)	2002	2001	Change	%
Total	574,000,000	579,000,000	5,000,000	(0.9)

Volumes decreased slightly compared to 2001, as drought eased in mid-2002.

Operating Revenues

($ millions)	2002	2001	Change	%
Total	$2.76	$2.69	$0.07	2.6

Operating revenues increased by 2.6% due to a rate increase.

Operating Expenses

($ millions)	2002	2001	Change	%
Total	$1.84	$1.72	$0.12	7

Operating expenses increased by 7% due to higher costs of purchasing treated water, labour, electricity, and general inflation.

Raw Transmission—Irrigation, Recreation and Wildlife Projects

SaskWater operates works that supply four irrigation districts (30,000 hectares total), individual irrigators, recreation (including Blackstrap Lake) and wildlife projects (9128 dam^3). Services are provided on a cost-recovery basis.

Operational Results—Irrigation, Recreation and Wildlife Projects

Operating Revenues

($ millions)	2002	2001	Change	%
Total	$1.30	$1.37	($0.066)	(4.8)

In 2002, revenues decreased following normal fluctuations.

Operating Expenses

($ millions)	2002	2001	Change	%
Total	$1.31	$1.25	$0.06	4.8

In 2002, expenses have the appearance of increasing because certain expenses were not transferred to general expense as they had been in past years. In 2003 those expenses will be re-allocated to provide an accurate representation of expenses associated with this account.

G. Diefenbaker Lake Area Water Supply

1 Broderick
2 East Side Pumpstation
3 Luck Lake Pumpstation
4 Riverhurst
5 Riverhurst Pumpstation

SaskWater has three irrigation pump stations on Lake Diefenbaker which, in addition to irrigation customers, provide water to the Village of Riverhurst, the Coteau Hills Rural Water Pipeline, the Cutbank Rural Pipeline Utility and other rural customers in the area.

Operational results

In 2002, transmission accounted for 54% of total operating revenues. (35% raw water transmission and 19% treated water transmission.)

Transmission - Raw

Volumes

(gallons, billions)	2002	2001	Change	%
Total	2.65	2.76	(0.11)	(4.0%)

Volumes decreased due to normal year to year variances in industrial water demand.

Operating Revenues

($ millions)	2002	2001	Change	%
Total	$5.09	$5.05	$0.04	0.8%

Even though volumes were down, operating revenues increased slightly because of a rate increase implemented in mid 2001.

Operating Expenses

($ K)	2002	2001	Change	%
Total	$788	$825	($37)	(4.5%)

Operating expenses declined by 4.5% which represents a return to normal expenses. Operating expenses had been high in 2001 because an electrical equipment failure created unusual costs.

Water Transmission

Transmission - Treated

Volumes

(gallons)	2002	2001	Change	%
Total	574,000,000	579,000,000	5,000,000	(0.9)

Volumes decreased slightly compared to 2001, as drought eased in mid-2002.

Operating Revenues

($ millions)	2002	2001	Change	%
Total	$2.76	$2.69	$0.07	2.6

Operating revenues increased by 2.6% due to a rate increase.

Operating Expenses

($ millions)	2002	2001	Change	%
Total	$1.84	$1.72	$0.12	7

Operating expenses increased by 7% due to higher costs of purchasing treated water, labour, electricity, and general inflation.

Raw Transmission—Irrigation, Recreation and Wildlife Projects

SaskWater operates works that supply four irrigation districts (30,000 hectares total), individual irrigators, recreation (including Blackstrap Lake) and wildlife projects (9128 dam^3). Services are provided on a cost-recovery basis.

Operational Results—Irrigation, Recreation and Wildlife Projects

Operating Revenues

($ millions)	2002	2001	Change	%
Total	$1.30	$1.37	($0.066)	(4.8)

In 2002, revenues decreased following normal fluctuations.

Operating Expenses

($ millions)	2002	2001	Change	%
Total	$1.31	$1.25	$0.06	4.8

In 2002, expenses have the appearance of increasing because certain expenses were not transferred to general expense as they had been in past years. In 2003 those expenses will be re-allocated to provide an accurate representation of expenses associated with this account.

Total Quality Water Management

SaskWater has adopted a Total Quality Water Management (TQWM) framework in recognition that the company's products and services are essential to life and that our customers' expectations are high. SaskWater's goals in implementing Total Quality Water Management are to ensure that every aspect of the quality chain works toward achieving customer satisfaction and to empower the people closest to the system to change the system to deliver satisfaction. The approach maximizes drinking water quality and minimizes risk.

The implementation of TQWM has both an internal, corporate-facing focus, and an external, customer-facing focus. In 2003, SaskWater will be well into implementing TQWM in-house. The company has several strategic initiatives underway in the areas of training, employee satisfaction, leadership, performance management and strategic planning for process improvements, asset management, and emergency mitigation and response. Internal implementation of TQWM provides improved management of SaskWater's utilities and enables the company to extend TQWM to customer-owned utilities.

Under the full-service TQWM model, SaskWater manages all aspects of the customer's water utility, including water supply, treatment, storage, distribution and wastewater disposal. SaskWater defines system parameters, performance objectives and protocols and manages the utility with trained resources and specialized technology. Of significant importance to customer systems with less than state-of-the-art treatment and distribution technology is SaskWater's remote monitoring equipment and emergency response services. Remote monitoring technology allows the corporation to monitor quality parameters 24 hours a day, 7 days a week. SaskWater's emergency mitigation and response plans minimize the chances of contaminating drinking water in the event of any system failure.

TQWM also integrates business management with process management (or operations). When SaskWater provides TQWM for a customer-owned utility, the Corporation supports the customer in all aspects of regulatory compliance, policy, strategic planning, water quality review, and reporting.

Building GOOD HEALTH

Total Quality Water Management

The Town of Bruno: TQWM Customer

In November of 2002, Bruno accepted SaskWater's TQWM proposal to operate and manage the community's water distribution, storage and wastewater system.

Bruno, located 85 kilometres east of Saskatoon with a population of about 600, had been a bulk treated water customer of SaskWater's for 7 years, supplied with quality drinking water from SaskWater's nearby regional system. As a bulk treated water customer, Bruno had maintained responsibility for water storage, distribution and waste water management.

Under SaskWater's TQWM agreement, SaskWater will operate the town's storage, distribution and wastewater disposal systems, providing water quality sampling and monitoring, water quality reporting to Saskatchewan Environment, the Town and its residents, wastewater sampling, treating and disposal. SaskWater's expanded service will be further supported by a 24/7 remote monitoring service at critical points in the customer's storage and distribution system. Town officials view water quality sampling results online.

Photo: His Worship, Jerome Strasser, Mayor of Bruno

Project Management and Other Services

Project Management

SaskWater provides customers with new or upgraded water and sewer systems that are functional, yet economical and "operator-friendly." Our experience in working with engineers and contractors and our technical expertise in water and wastewater provides a solid base from which to handle these projects. In addition, the relationships built through years of working with regulators and other provincial agencies ensure that regulatory and land control issues are dealt with efficiently. As a result, in 2002 SaskWater provided project management services to 34 of the 35 communities in the Northern Administration District and initial inspections and technical guidance to over 50 municipalities in the southern area of the province. SaskWater also managed municipal investments worth $2.0 million in 2002.

In northern Saskatchewan SaskWater plays a key role in planning and managing of the design and construction of water and wastewater infrastructure. SaskWater signed an agreement with the Northern Revenue Sharing Trust Account Management Board (NRSTAMB) to provide program management of a five-year $25 million initiative to construct and upgrade the water and wastewater infrastructure in Saskatchewan's 35 northern communities. The program, announced in 2000 by Saskatchewan Government Relations and Aboriginal Affairs, provides safe and secure water supplies and environmentally-acceptable wastewater disposal in the north.

SaskWater's services include managing the program budget, technical advice for conceptual and feasibility studies, project management during the design and construction of the facilities, and assistance with start-up and operation. SaskWater also responds to water quality and system emergencies in the northern communities on behalf of the NRSTAMB. In 2002 work ranged from providing solutions to water quality issues creating boil water orders at Sandy Bay and Ile a la Crosse, to replacement of pumps and securing temporary emergency water supplies.

In 2002 SaskWater managed 35 construction projects in 27 northern communities among them the installation of water and sewer systems in Brabant Lake, Stony Rapids and Sled Lake. SaskWater's role, backed by 20 years of experience in northern engineering, of providing project management and general technical advice to northern communities is vital to the success of the northern program.

Project Management and Other Services

SaskWater also provides technical operation and maintenance assistance and operator training to First Nations and northern communities. In 2002, SaskWater provided training and technical assistance to 54 First Nations throughout Saskatchewan.

In addition to project management provided to the NRSTAMB and municipal customers, SaskWater manages its own capital construction program and offers project management services to municipalities undertaking water infrastructure projects. In 2002, SaskWater managed $5.7 million of its own capital projects.

Other Services

Wastewater Management

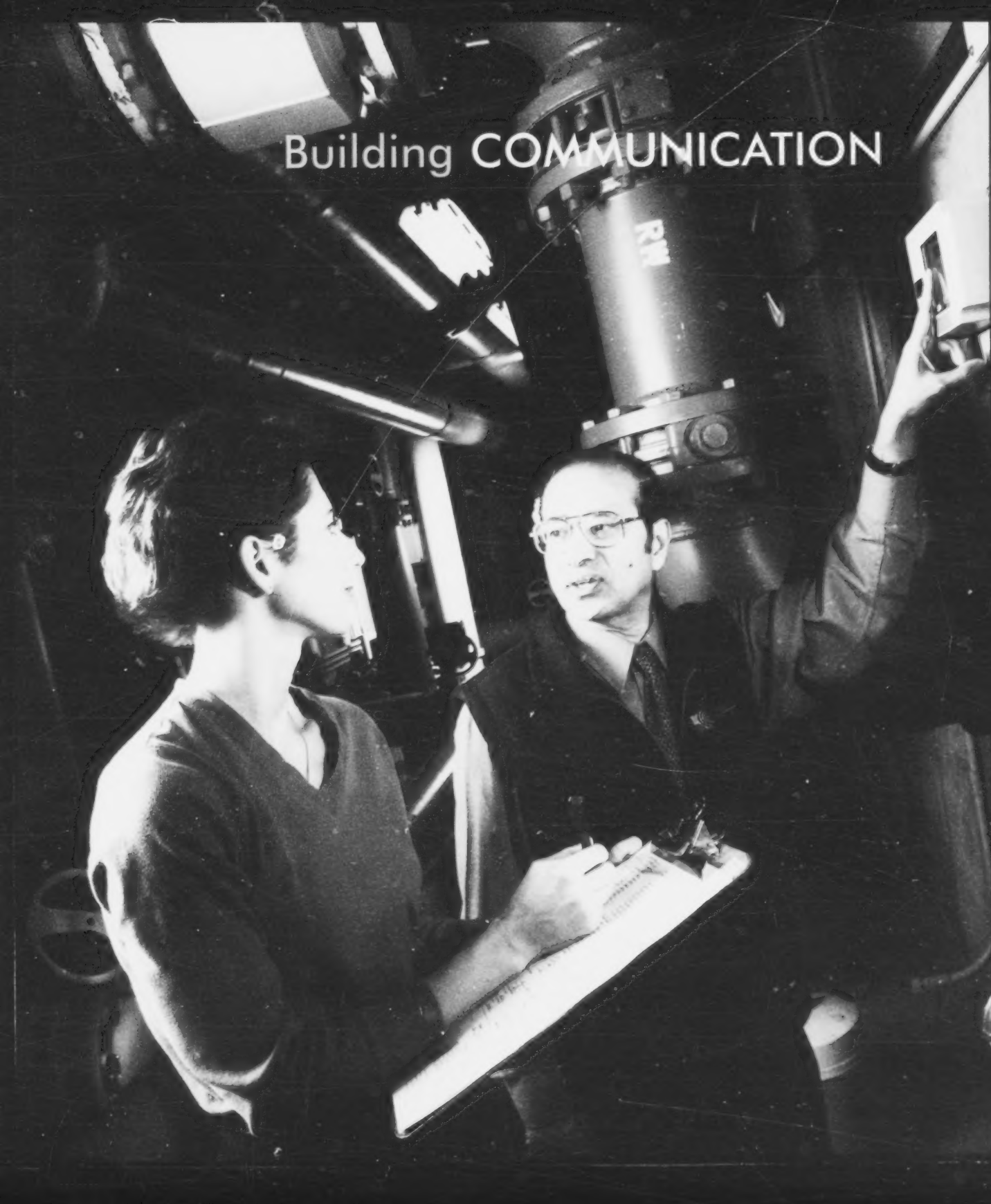
SaskWater owns and operates a regional wastewater system near Nipawin and a municipal wastewater disposal system for Pierceland. The regional wastewater system serves the CanAmera Foods canola processing plant, the Town of Nipawin and the Village of Codette. The Corporation invested close to $3 million to build the system which has solved a number of problems for the three customers involved and has resulted in a cleaner river and decreased responsibilities for the customers.

SaskWater expects to increase its number of wastewater customers as new regulations requiring certified operators in 2005 come into effect.

Mobile Pumping Equipment Rentals

In 2002 SaskWater invested $400,000 to purchase an additional 10 pumps, 10 miles of pipe and 10 trailers for rentals. The investment increased the company's service capacity by 25% which helped in meeting another year of heavy demand for the service. The corporation received 977 applications for pumping services in 2002 and completed 826 jobs. (One hundred and forty-nine applications were cancelled at the customer's request.) Mobile pumping rentals are currently provided on a cost-recovery basis.

Photo: Karen Daku, Senior Business Development Manager and Shahid Khan, Water and Wastewater Engineering Manager check water quality results.


Building COMMUNICATION

2002 Balanced Scorecard Report

SaskWater is a subsidiary of Crown Investments Corporation and receives strategic direction from CIC. SaskWater's performance objectives and measures for 2002, informed by the Crown Sector Strategic Plan, are described in the Balanced Scorecard Report that follows.

Discussion of Results

The results for 2002 varied from the targets in some instances.

Diversity hires for 2002 were 21.6%, or 13.4% short of the 2002 hiring target of 35%. This is partly due to lack of qualified applicants from diversity groups and partly due to the smaller size of the corporation after October 1. The new SaskWater employs about 70 people; the old SaskWater had about 245 positions.

Employees received 12.75 training days in diversity awareness, significantly less than the target of 100 training days. Throughout 2002, significant resources were dedicated to re-organization which meant that less in-house training was scheduled in 2002.

SaskWater made financial donations above its target in response to the number of requests for support received.

The company invested $125,078 in employee training, or 1.33% of employees' salaries. The target was 2%. This shortfall can be attributed to changes in the number of employees as the year unfolded and to dedicating resources to reorganization.

One of SaskWater's customers received a boil water advisory in 2002. It was quickly lifted and was, we believe, the result of a sampling error.

One hundred and seventeen communities made initial or follow-up contact with SaskWater in 2002, a dramatic increase over the target of seven. The increase reflects the province's Drinking Water Strategy announced April 5, 2002 and the interest of municipalities in improved water services.

The significant difference between the 2002 target and actual return on equity values is the result of administrative expenses allocated to SaskWater following October 1, 2002, which had not been allocated to the utility segment of the old SaskWater in other years.

2002 Balanced Scorecard Report

Achievement of Public Policy Targets

	Objectives	Measures	Actual 2001	Targets 2002	Actual 2002
To achieve our vision how can we satisfy public policy goals?	• Buy Saskatchewan products and services	% products & services sourced in Sask.	85.1%	82%	87.5%
	• Hiring practices that support employment diversity	% Diversity target group hires of total hires	32.6%	35%	21.6%
	• Support the achievement of a diverse workforce	Number of outreach agencies advised of job opportunities	17	14	17
	• Increase employee acceptance of diversity	Diversity training - total employee days	75	100	12.75
	• Support of organizations, sporting, & educational events with water-based themes	Financial donations by Sask Water	$21,426	$10,000	$15,292
	• Project WET - Water Education for Teachers	Train new teachers for Project WET	72	200	30*

* Reflects Q1-Q3 results. This activity is part of discontinued operations.

Customer Focus: Satisfaction

	Objectives	Measures	Actual 2001	Targets 2002	Actual 2002
To achieve our vision how should we appear to our customers?	• Operate the utility to meet customer needs	Average time customers not supplied with water when problems occur	5.28 hours	19 hours	4.8 hours
	• Create positive relationships with customers	Annual utility customer satisfaction survey	8.93	8	**
	• Provide access to safe quality drinking water	Number of boil water advisories for treated water supplied by Sask Water	0	0	1
	• Timely resolution of drainage disputes	Average time to resolve dispute	18 months	17 months	16.5* months
		Number of cases over 18 month resolution threshold	27	10	14*
		Number of informal disputes resolved	256	275	34*

* Reflects Q1-Q3 results. This activity is part of discontinued operations.
** Not included in 2002

Innovation and Growth Targets

	Objectives	Measures	Actual 2001	Targets 2002	Actual 2002
To achieve our vision how will we sustain our ability to change and improve?	• Build & monitor employee satisfaction	Annual employee survey	6.1	6.4	**
	• Enhance employee training	Training $ as % of employee salaries	2.4%	2%	1.33%

** Because 2002 was a year of corporate re-focussing and re-structuring, no employee satisfaction survey was undertaken.

2002 Balanced Scorecard Report

Customer Focus: Acquisition

	Objectives	Measures	Actual 2001	Targets 2002	Actual 2002
To achieve our vision how should we appear to our customers?	• Provide awareness & knowledge of Sask Water	Number of new & follow -up contacts to municipal & industrial clients	70	7	117
	• To grow the utility business	Annual capital expenditures on new utility projects ($ million)	$0.357	$5.1	$5.0
	• Provide access to safe quality water	Number of clients served by the Rural Water Quality Advisory Program	598	425	430*

* Reflects Q1-Q3 results. This activity is part of discontinued operations.

Customer Focus: Trust

	Objectives	Measures	Actual 2001	Targets 2002	Actual 2002
To achieve our vision how should we appear to our customers?	• Increased citizen participation	Number of new water stewardship associations developed	2	2	1*
	• Upgrade all Sask Water dams to meet current Dam Safety Criteria	Number of dams not meeting Dam Safety Criteria	33	23	30*

* Reflects Q1-Q3 results. This activity is part of discontinued operations.

Financial Targets

	Objectives	Measures	Actual 2001	Targets 2002	Actual 2002
To succeed financially how should we appear to our shareholders?	• Undertake sustainable public policy water management issues	Non-Utility cash flow ($ Million)	($4.04)	($1.4)	$0.9
	• Earn an appropriate return on the public's investment	Return on Equity: Overall Utility	(3.4)%	(2.4%)	(14.3%)
		Return on Equity: Overall (excluding Wakaw-Humboldt project)	5.3%	6.1%	1.8%
		Projected Internal Rate of Return: New Projects - Municipal	9%	9%	9%
		New Projects - Industrial	11%	11%	11%
	• Ensure a sustainable debt level	Debt to Debt Equity ratio - Overall Utility	76%	78%	77.3%
		Debt to Debt Equity ratio - Utility excluding Wakaw-Humboldt	38%	40%	40%
	• To determine change in shareholder value	Economic Profit (Loss) in $ Millions	($0.67)	($0.8)	($2.2)

Photo: Rod Kennard, Senior Technician, and Cal Stewart, Senior Technologist, at SaskPower's Cory Cogeneration site. SaskWater supplies water to the power plant.

Building SERVI

2003 Outlook and Performance Management

Outlook

SaskWater's major initiatives and strategies for 2003 focus on growing its core business of water treatment and water transmission, evolving the core business with additional value-added services and continuing to establish the company's new service offerings in the marketplace.

The water industry is, to a large extent, driven by regulation. In Canada, regulation has been strengthened following incidents of drinking water contamination in Walkerton, Ontario and North Battleford, Saskatchewan. New regulation creates strategic opportunities for SaskWater as many municipalities and industries look for new ways to meet regulations. SaskWater expects to invest about $10 million in water infrastructure projects in 2003.

While strategic opportunities exist for SaskWater, the Corporation is also working to manage risks unique to its business.

- SaskWater must help move municipalities toward accepting a "user-pay" model. Government grants alone cannot cover the scope of system improvements required and customers will have to be encouraged to consider water services as another necessary utility expense.
- SaskWater will be challenged to renegotiate over time the pricing of existing customer agreements that do not reflect its new commercial mandate.
- The Corporation will need to find ways to help municipalities that lack capital reserves or borrowing capacity find alternative means of financing system improvements.

Performance Management

The following tables comprise SaskWater's 2003 Balanced Scorecard objectives and measures which have been revised to reflect the new corporation and its approach to TQWM.

Leadership & Governance

	Objectives	Measures	Targets 2003
Enablers	Open communication	Clear, goal driven business plans for all business units	Completed
		Staff updates	Quarterly
Outcomes	Leadership excellence	360-degree evaluation index of Executive Team	TDB
		Reporting of business unit work achievements	Quarterly

TBD: To be determined

2003 Outlook and Performance Management

Employee Potential, Growth and Satisfaction

	Objectives	Measures	Targets 2003
	Enhance employee training	Training $ as % of employee salaries	3%
		% of employees taking training annually	50%
Outcomes	Build and monitor employee satisfaction	Annual employee satisfaction survey	TBD
		Number of employee "sick days" taken	TBD

TBD: To be determined

Corporate Policy & Strategy

	Objectives	Measures	Targets 2003
Enablers	Manage risks & incidents in a proactive manner	Establishment of an incident & risk management plan & communication strategy	Complete
Outcomes	Establish operational partnerships	Number of partnership agreements in place	2
	Adoption of Total Quality Water Management approach	Annual employee TQWM survey	TBD
	Manage irrigation assets & operation in a commercial & sustainable manner	Government approval of irrigation strategy	Accepted

TBD: To be determined

Resources & Assets

	Objectives	Measures	Targets 2003
Enablers	Judiciously manage assets	% plans completed of total number required	10%
Outcomes	Judiciously manage assets	Maintenance $ to Capital $	TBD

TBD: To be determined

Business Growth

	Objectives	Measures	Targets 2003
Enablers	Earn an appropriate return on the public's investment	Projected Internal Rate of Return:	
		New Projects—Municipal	9%
		New Projects—Industrial	11%
		New Projects—Government	9%
Outcomes	Ensure debt is kept to a sustainable level	Debt to Debt & Equity ratio – Overall Utility	TBD
		Return on Equity	TBD

TBD: To be determined

2003 Outlook and Performance Management

Customers

	Objectives	Measures	Targets 2003
Enablers	Operate the utility to meet customer needs	Number of service interruptions	TBD
		Average length of service interruption (time)	1.4 hours
	Provide access to safe drinking water	Number of boil water advisories for treated water supplied by SaskWater	0
	Provide awareness & knowledge of SaskWater products & services	Number of active business contacts with with municipal & industrial clients	150
	SaskWater projects are done efficiently & effectively	Frequency of SaskWater projects being completed on time	80%
		Frequency of SaskWater projects being completed on budget	80%
Outcomes	Customer satisfaction	Industrial customer satisfaction survey	TBD
		Community customer satisfaction survey	TBD
		Individual customer satisfaction survey	TBD

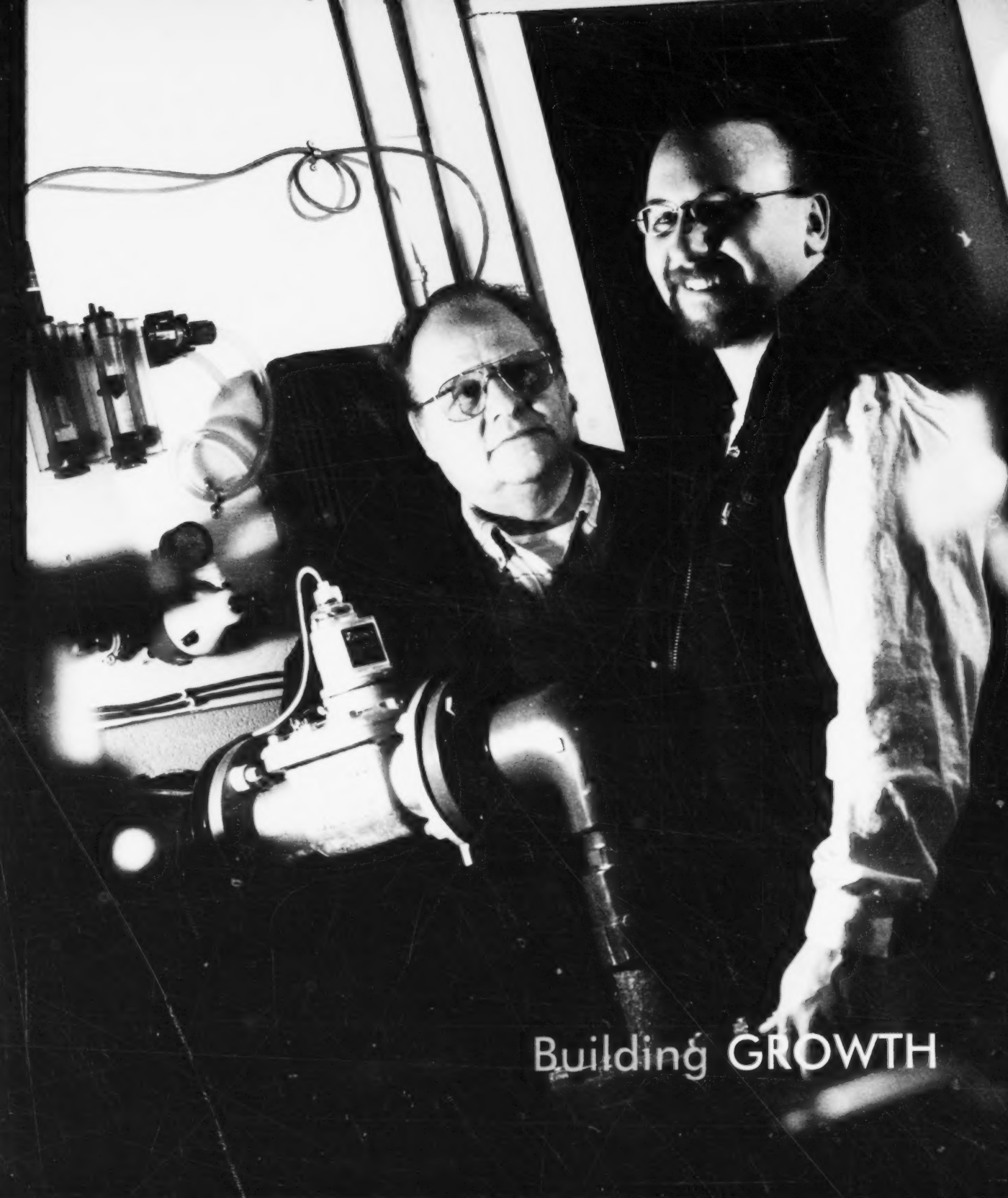
TBD: To be determined

Public Policy and Purpose

	Objectives	Measures	Targets 2003
Enablers	Contribute to provincial economic diversification and growth	Percentage of products and services sourced in Saskatchewan	85%
		Value of new infrastructure investments in projects managed by SaskWater	TBD
	Increase employee acceptance of diversity	Diversity training (total employee days)	30
	Demonstrate leadership on environmental issues	Number of wastewater treatment plants managed	3
Outcomes	Build a representative workforce	Percentage of diversity target group hires of total hires	35%
	Contribute to building a skilled Saskatchewan workforce	Number of technology & engineering students hired	5
	Support Saskatchewan innovation & development	Number of remote monitoring & control systems in use	5

TBD: To be determined

Photo: His Worship, Jerome Strasser, Mayor of Bruno and Darin Orb, Senior Technologist, on site for installation of remote monitoring equipment in Bruno's water distribution centre.


Building GROWTH

Management's responsibility for financial reporting

Management has prepared the financial statements of the Corporation in accordance with generally accepted accounting principles. The financial data included elsewhere in this report is consistent with the financial statements and the underlying information from which the Corporation prepared these financial statements.

Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, the Corporation maintains appropriate systems of internal controls, policies and procedures. These systems provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

Meyers Norris Penny LLP, the Corporation's external auditors, have examined the December 31, 2002 financial statements and their report follows.

The Board of Directors of SaskWater has examined and approved the statements.

On behalf of the Corporation,

Stuart Kramer

Stuart Kramer
President
January 30, 2003

Auditors' Report

To the Members of
the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Water Corporation as at December 31, 2002 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Saskatchewan Water Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Chartered Accountants
Regina, Canada
January 30, 2003

Statement of Financial Position

as at December 31

	2002	2001
	(Thousands of Dollars)	
Assets		
CURRENT ASSETS		
Accounts receivable and advances	$ 3,927	$ 4,297
Prepaid expenses and supplies	190	1,976
Current portion of long-term receivables (note 4)	12	100
	4,129	6,373
LONG-TERM RECEIVABLES (note 4)	81	701
CAPITAL ASSETS (note 5)	65,844	63,220
	$ 70,054	$ 70,294
Liabilities and Province of Saskatchewan's Equity		
CURRENT LIABILITIES		
Bank indebtedness	$ 121	$ 527
Accounts payable and accrued liabilities	2,227	4,312
Notes payable (note 6)	10,383	5,248
Deferred funding (note 7)	-	528
Current portion of long-term debt (note 9)	714	669
	13,445	11,284
DEFERRED REVENUE AND PREPAYMENTS (note 8)	3,313	4,997
LONG-TERM DEBT (note 9)	38,522	35,216
OTHER LONG-TERM OBLIGATIONS (note 10)	227	693
	55,507	52,190
PROVINCE OF SASKATCHEWAN'S EQUITY		
Equity advance (note 11)	700	700
Contributed surplus (note 15)	1,346	1,612
Retained earnings	12,501	15,792
	14,547	18,104
	$ 70,054	$ 70,294

Commitments and Contingencies (note 13)

See accompanying notes

On behalf of the Board:

Chair

Director

Statement of Financial Position

(as at December 31)

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	(Thousands of Dollars)	
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	$ 70,054	$ 70,294

Commitments and Contingencies (note 13)

See accompanying notes

On behalf of the Board:

Chair

Director

Statement of Operations and Retained Earnings

year ended December 31

	2002	2001
	(Thousands of Dollars)	
REVENUE		
Water	$ 13,145	$ 13,073
Grants from General Revenue Fund	-	500
Amortization of deferred revenue	186	186
Rental income and surface leases	109	74
Other	1,076	1,016
	14,516	14,849
EXPENSES		
Operations	10,864	9,518
Amortization of capital assets	2,434	2,419
Interest	3,191	3,198
	16,489	15,135
Loss before the following	(1,973)	(286)
Loss from discontinued operations (notes 3 & 14)	(1,318)	(3,890)
NET LOSS	(3,291)	(4,176)
RETAINED EARNINGS, BEGINNING OF YEAR	15,792	19,968
RETAINED EARNINGS, END OF YEAR	$ 12,501	$ 15,792

See accompanying notes

Statement of cash flows

year ended December 31

	2002	2001
	(Thousands of Dollars)	
Operating activities		
Net loss	$ (3,291)	$ (4,176)
Charges and credits not affecting cash:		
Amortization of capital assets	2,679	2,734
Amortization of deferred revenue and prepayments	(724)	(585)
Amortization of premium	(43)	(45)
Sinking fund earnings	(178)	(162)
Gain on disposal of assets	(31)	-
Assets under construction expensed	-	438
Provision for PAWBED Loans	345	-
Net changes in non-cash working capital balances relating to operations:		
Deferred funding	(234)	(53)
Deferred revenue and prepayments	217	145
Other	(1,447)	(853)
Cash used in operating activities	(2,707)	(2,557)
Investing activities		
Long-term receivables	95	121
Capital expenditures	(5,686)	(905)
Proceeds on disposal of assets	40	-
Cash used in investing activities	(5,551)	(784)
Financing activities		
Proceeds from long-term debt	4,500	-
Proceeds from notes payable	5,135	4,243
Retire long-term debt	(669)	(628)
Sinking fund installments	(302)	(302)
Cash provided by financing activities	8,664	3,313
INCREASE (DECREASE) IN CASH	406	(28)
BANK INDEBTEDNESS, BEGINNING OF YEAR	(527)	(499)
BANK INDEBTEDNESS, END OF YEAR	$ (121)	$ (527)
Interest paid during the year	$ 3,345	$ 3,359

See accompanying notes

Statement of Operations and Retained Earnings

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See accompanying notes

Notes to the financial statements

December 31, 2002

1. Status of the Corporation

The Saskatchewan Water Corporation (the Corporation) was established on July 1, 1984, under the authority of **The Water Corporation Act** which remained in effect until September 30, 2002.

On October 1, 2002 **The Saskatchewan Water Corporation Act** was proclaimed.

By virtue of The Crown Corporations Act, 1993, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the consolidated financial statements of CIC, a Provincial Crown corporation. As the Corporation is a Provincial Crown corporation, it is not subject to Federal or Provincial income taxes in Canada, but is subject to Provincial corporate capital tax.

In accordance with the provisions of **The Water Corporation Act**, the Corporation's general powers and purposes were to manage, control, develop and administer the use of all water resources in the Province of Saskatchewan in an economic and efficient manner, and to own and operate water-related works. In fulfilling its mandate, the Corporation constructed various regional water supply utility systems and public policy water management and water supply works. The Corporation also delivered various economic development programs on behalf of the Province of Saskatchewan. In addition, the Corporation provided financial assistance to various persons, communities and organizations to carry out its general powers and purposes.

The Corporation's activities under **The Water Corporation Act** were also governed by agreements with various agencies of the Government of Saskatchewan. The agreements provided, among other things, for the Corporation to receive revenue from the General Revenue Fund and other agencies to finance the acquisition of capital assets, to make payments of grants to clients, to make public policy expenditures and to fund operations. These activities were thereby dependent on funding from the General Revenue Fund.

In accordance with the provisions of **The Saskatchewan Water Corporation Act**, the Corporation's general powers and purposes are to construct, acquire, manage or operate works and to provide services in accordance with any agreements that it enters into pursuant to this **Act**.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with generally accepted accounting principles and include certain estimates based on management's judgement. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. The following accounting policies are considered to be significant:

Capitalization of Expenses

Internally provided engineering and technical services are capitalized at standard labour rates designed to recover salaries, benefits and administration. The objective of this policy is to recognize the approximate value of design, supervision and administrative services rendered by Corporation employees on construction projects. Internally provided services capitalized amounted to $294,900 (2001 - $184,850). As well, the Corporation capitalizes interest expense on debt relating to specific construction projects until they are substantially completed. During the year, $58,000 (2001 - nil) in interest was capitalized.

Grants from the General Revenue Fund – Discontinued Operations

Under the authority of Section 21 of **The Water Corporation Act**, the Corporation received grants from the General Revenue Fund out of monies appropriated by the legislature. These grants were recorded as revenue when received and were used to fund grant programs, water management infrastructure expenses and operations.

Grants to Clients – Discontinued Operations

Grants provided to clients for a variety of programs were recorded as an expense to the Corporation if the final approval for the grant payment was made during the year. Where the Corporation enters into contractual agreements for project construction under various assistance programs, expenditures were accounted for on an accrual basis.

Capital Assets

Capital assets are recorded at cost to the extent that these costs are recoverable from future operations. Assets under construction are capitalized at cost, and are transferred to the appropriate asset category when construction is complete and the asset is in use. Assets are capitalized at cost net of any subsidies or contributions received for that specific purpose.

Amortization of capital assets is calculated at the following annual rates designed to amortize the recorded cost over the estimated useful lives of the capital assets. Assets under construction transferred to the appropriate asset category before June 30th are amortized for the full year, otherwise they are not amortized until the following year.

Capital Assets	Method	Rate
Buildings	straight-line	2.5% to 5%
Water facilities	diminishing balance or straight-line, as appropriate	2% to 30%
Maintenance and Office Equipment	diminishing balance or straight-line, as appropriate	10% to 30%

Post Retirement Benefits Other Than Pension

The Corporation administers a benefit relating to a retirement allowance which is paid to eligible employees upon retirement. The Corporation has adopted the accrual method of accounting for this benefit whereby the cost of providing the benefits is recorded when the related services of employees are performed.

Segmented Information

Revenue and expenses directly attributable to the utility and water management segments of the Corporation's activities were reflected in the results of operation of each segment. Also included is an allocation of general administration expenses based on support services involvement with various segments.

3. Discontinued Operations

On October 1, 2002, the Corporation transferred involvement in water management activities to the Saskatchewan Watershed Authority. These activities include the operations, maintenance and rehabilitation of provincially-owned water infrastructure including dams, weirs and conveyance channels, as well as the hydrometric, forecasting and regulatory functions of the Corporation. As well, irrigation programming activities were transferred to Saskatchewan Agriculture, Food and Rural Revitalization (SAFRR) from the Corporation.

Effective this date, assets and liabilities relating to these activities were transferred to the respective related parties at their net book value. The difference in the value of the assets and liabilities transferred resulted in an accounts receivable from SAFRR and an accounts payable to Saskatchewan Watershed Authority.

For reporting purposes, the results and financial position of these business segments have been presented as discontinued operations. Accordingly, prior year figures have been reclassified to conform with the current year presentation.

The results of discontinued operations are reported in note 14. A summary of the year-end carrying values of the assets and liabilities related to the discontinued operations are as follows:

	2002	2001
	(Thousands of Dollars)	
DISCONTINUED OPERATIONS		
Current assets related to discontinued operations	$ -	$ 4,191
Non-current assets related to discontinued operations	-	1,177
Current liabilities related to discontinued operations	-	3,764
Non-current liabilities related to discontinued operations	-	3,202

4. Long-Term Receivables

	2002	2001
	(Thousands of Dollars)	
YEAR RECEIVABLE		
2002	$ -	$ 100
2003	12	73
2004	14	295
2005	11	261
2006	12	28
2007	13	13
2008 and subsequent	31	31
	93	801
Less: Current portion on long-term receivables	(12)	(100)
	$ 81	$ 701

Amounts in this account represent loans issued to various clients for water supply agreements repayable over the next several years.

Amounts reported in the prior year also included loans issued to various clients for economic development projects repayable over the next several years. These loans were non-interest bearing; no security was held on these loans. These specific loans were transferred to SAFRR on October 1, 2002.

5. Capital Assets

	2002			2001
	(Thousands of Dollars)			
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,545	$ -	$ 1,545	$ 1,554
Buildings	1,142	569	573	624
Water facilities	91,807	28,781	63,026	60,027
Maintenance equipment	1,741	1,096	645	548
Office equipment	218	163	55	194
Assets under construction	-	-	-	273
	$ 96,453	$ 30,609	$ 65,844	$ 63,220

6. Notes Payable

DUE DATE	INTEREST RATE	2002	2001
		(Thousands of Dollars)	
March 31, 2003	2.74%	$ 10,383	$ -
March 28, 2002	1.98%	-	5,248
		$ 10,383	$ 5,248

By Order-in-Council, Sask Water is authorized to borrow up to $18,000,000 by way of temporary loans from the Province of Saskatchewan - General Revenue Fund.

7. Public Policy Expenditures and Deferred Funding Discontinued Operations

As an agency of the Government of the Province of Saskatchewan, the Corporation incurred expenditures for various physical works for which it retains ownership. A public policy expenditure is recorded when such works do not directly produce sufficient revenue to finance their costs.

The majority of these expenditures relate to the Souris Basin and major irrigation projects.

The funding and related construction costs incurred from January 1, 1986 to September 30, 2002 are as follows:

	2002	Jan 1, 1986 to Dec 31, 2001	Total
		(Thousands of Dollars)	
Funded by:			
Province of Saskatchewan - General Revenue Fund	$ -	$ 195,249	$ 195,249
U.S. Government	-	62,222	62,222
Saskatchewan Power Corporation	-	20,300	20,300
Revenue Canada - GST rebate	-	2,309	2,309
	-	280,080	280,080
Construction costs	(234)	(278,786)	(279,020)
Transfer to deferred revenue and prepayments	-	(766)	(766)
Transferred to Saskatchewan Watershed Authority	(294)	-	(294)
Deferred funding	$ (528)	$ 528	$ -

Construction costs of the Souris Basin projects are funded by the General Revenue Fund, the U.S. Government and Saskatchewan Power Corporation. Amounts received in excess of expenditures incurred were recorded as deferred funding, whose balance, as at September 30, 2002, was transferred to Saskatchewan Watershed Authority.

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5. Capital Assets

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 1,545	$ -	$ 1,545	$ 1,554
Buildings	1,142	569	573	624
Water facilities	91,807	28,781	63,026	60,027
Maintenance equipment	1,741	1,096	645	548
Office equipment	218	163	55	194
Assets under construction	-	-	-	273
	$ 96,453	$ 30,609	$ 65,844	$ 63,220

6. Notes Payable

DUE DATE	INTEREST RATE	2002	2001
		(Thousands of Dollars)	
March 31, 2003	2.74%	$ 10,383	$ -
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8. Deferred Revenue and Prepayments

Deferred revenue and prepayments, in part, represent revenue received from certain customers at the commencement of supply. These prepayments, which relate to the utility operation, are amortized into utility water revenue at 5% per annum on a straight-line basis or are matched against annual expenses.

Premium and issue costs relating to long-term debt are deferred and amortized on a straight-line basis over the term of the respective debt issue.

	2002	2001
	(Thousands of Dollars)	
Balance, beginning of year	$ 4,997	$ 5,482
Contributions received	217	145
Amortization of revenue	(186)	(186)
Amortization of premiums	(43)	(45)
Amortization of prepayments	(538)	(399)
Transferred to Saskatchewan Watershed Authority	(1,134)	-
Balance, end of year	$ 3,313	$ 4,997

9. Long-Term Debt

		2002	2001
		(Thousands of Dollars)	
Year Payable	Interest Rate		
2002	7.000%	$ -	$ 669
2003	7.250%	714	714
2004	7.375%	764	764
2005	7.500%	7,618	7,618
2006	7.500%	876	876
2007	7.625%	940	940
2008	7.750%	1,009	1,009
2009-2016	8.047%	15,894	11,394
2022	9.600%	15,000	15,000
		42,815	38,984
Less: Current portion of long-term debt		(714)	(669)
Less: Equity in sinking funds		(3,579)	(3,099)
		$ 38,522	$ 35,216

These loans are due in the year payable to the General Revenue Fund with interest payable semi-annually. Minimum sinking fund installments required over the next five years are $218,000 per year.

10. Other Long-Term Obligations

	2002	2001
	(Thousands of Dollars)	
Retirement allowance	$ 227	$ 693

This unfunded employee benefit is discounted at an interest rate of 5.50% (2001 – 5.50%). The amount of allowances disbursed in the year were $43,900 (2001 - $16,000).

11. Equity Advance

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

12. Grants to Clients – Discontinued Operations

Included in expenses were grants or assistance provided to various persons, communities and organizations to carry out a variety of programs administered by the Corporation. In addition, where the condition of financial assistance for certain programs required the Corporation to provide engineering or technical services, an allocation of salaries to grant expense was made. Particulars of these grants, including salary allocation of $1,387,100 (2001-$1,934,200), by program, were as follows:

	2002	2001
	(Thousands of Dollars)	
Drought (wells)	$ 24	$ 28
Irrigation Development	1,860	1,896
Municipal Water and Sewage	12	151
Flood Control and Drainage	339	1,404
Water Quality	298	368
	$ 2,533	$ 3,847

13. Commitments and Contingencies

Contractual Commitments

As of December 31, 2002, the Corporation has outstanding commitments of $142,949 (2001 - $3,668,158) for construction contracts and consulting agreements primarily relating to assets under construction.

8. Deferred Revenue and Prepayments

Deferred revenue and prepayments, in part, represent revenue received from certain customers at the commencement of supply. These prepayments, which relate to the utility operation, are amortized into utility water revenue at 5% per annum on a straight-line basis or are matched against annual expenses.

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13. Commitments and Contingencies

Contractual Commitments

As of December 31, 2002, the Corporation has outstanding commitments of $142,949 (2001 – $3,668,158) for construction contracts and consulting agreements primarily relating to assets under construction.

Leases

The Corporation has entered into various operating lease agreements with the following minimum lease payments:

	(Thousands of Dollars)
2003	$ 8
2004	5
2005	-
2006	-
2007	-
2008 and subsequent	-
	$ 13

Litigation

The Corporation is party to a number of lawsuits and has provided for these claims in its accounts in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

14. Segmented Information

The utility segment is responsible for the development and operation of water and wastewater facilities on a commercial basis.

Effective October 1, 2002, Sask Water transferred water management-related assets and liabilities to Saskatchewan Watershed Authority at their respective carrying values. The nine months of discontinued operations of Water Management segment are included in these financial statements.

Statement of Operations

	2002			2001		
	(Thousands of Dollars)					
	Discontinued Operations	Utility	Total	Discontinued Operations	Utility	Total
REVENUE						
Water	$ 6,538	$ 13,145	$ 19,683	$ 7,772	$ 13,073	$ 20,845
Grants from General Revenue Fund	8,582	-	8,582	4,991	500	5,491
Amortization of deferred revenue	-	186	186		186	186
Rental income and surface leases	65	109	174	219	74	293
Other	230	1,076	1,306	151	1,016	1,167
Transfer from Deferred Funding	234	-	234	53		53
	$ 15,649	$ 14,516	$ 30,165	$ 13,186	$ 14,849	$ 28,035
EXPENSES						
Operations	5,455	10,864	16,319	6,623	9,518	16,141
Water Management	3,579	-	3,579	5,356	-	5,356
Grants to Clients	2,533	-	2,533	3,847		3,847
Water Management Infrastructure Expenses	4,877	-	4,877	736		736
Public Policy	234	-	234	53		53
Amortization	245	2,434	2,679	315	2,419	2,734
Interest	44	3,191	3,235	146	3,198	3,344
	16,967	16,489	33,456	17,076	15,135	32,211
LOSS FROM OPERATIONS	$ (1,318)	$ (1,973)	$ (3,291)	$ (3,890)	$ (286)	$ (4,176)
IDENTIFIABLE ASSETS	$ -	$ 70,054	$ 70,054	$ 6,300	$ 63,994	$ 70,294

15 Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms except for revenue which is at rates negotiated between Sask Water and related parties. These transactions and amounts outstanding at year end are as follows:

	2002	2001
	(Thousands of Dollars)	
Accounts receivable	$ 1,704	$ 1,856
Accounts payable and accrued liabilities	1,212	1,210
Revenue	7,436	9,456
Expenses	7,963	8,921

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

As disclosed in Note 3 of these financial statements the Corporation transferred involvement in water management activities to the Saskatchewan Watershed Authority (SWA), as well as irrigation programming activities to SAFRR on October 1, 2002. Effective this date, assets and liabilities related to these activities were transferred to the respective related parties at their book value. A summary of these transfers is as follows:

	SAFRR	SWA
	(Thousands of Dollars)	
Current assets	$ 25	$ 2,730
Non-current assets	297	325
Current liabilities	48	1,717
Non-current liabilities	-	1,766

This transaction created a net payable in the Corporation's accounts (due from SAFRR $8,000, due to SWA $428,000) of $420,000.

The assets transferred to SAFRR included loans receivable related to economic development activities. It was agreed that these loans, valued at $266,000, be transferred to SAFRR at no cost thereby reducing the Corporation's contributed surplus.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

16. Pension Plan

Sask Water's employees participate in the Capital Pension Plan (the Plan), a defined contribution pension plan which is administered by CIC. The Corporation's contributions to the Plan include making regular payments into the Plan to match the required amounts contributed by employees for current service. The total amount paid to the Plan for 2002 was $420,000 (2001 - $445,600).

Leases

The Corporation has entered into various operating lease agreements with the following minimum lease payments:

2003	$ 8
2004	5
2005	-
2006	-
2007	-
2008 and subsequent	-
	$ 13

Litigation

The Corporation is party to a number of lawsuits and has provided for these claims in its accounts in accordance with management's best estimates and the advice received from legal counsel. The Corporation intends to account for any differences which may arise, between amounts provided and amounts expended, in the period in which the claims are resolved.

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Other	230	1,076	1,306	151	1,016	1,167
Transfer from Deferred Funding	234		234	53		53
	$ 15,649	$ 14,516	$ 30,165	$ 13,186	$ 14,849	$ 28,035
Expenses						
Operations	5,455	10,864	16,319	6,623	9,518	16,141
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Amortization	245	2,434	2,679	315	2,419	2,734
Interest	44	3,191	3,235	146	3,198	3,344
	16,967	16,489	33,456	17,076	15,135	32,211
Loss before Income Taxes	$ (1,318)	$ (1,973)	$ (3,291)	$ (3,890)	$ (286)	$ (4,176)
Net Assets, Beginning of Year	$ -	$ 70,054	$ 70,054	$ 6,300	$ 63,994	$ 70,294

15 Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

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17. Financial Instruments

The Corporation's recognized financial instruments consist of bank indebtedness, accounts receivable and advances, long-term receivables, accounts payable and accrued liabilities, long-term debt and notes payable.

Credit Risk

The Corporation is exposed to credit risk from the potential default of customers. However, approximately one-half of the Corporation's accounts receivable are from related parties, other government corporations and agencies.

Fair Values

The fair values of short-term accounts receivable and all accounts and notes payable approximate their carrying value due to the short-term nature of these instruments.

	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term accounts receivable	$ 81	$ 100	$ 701	$ 659
Long-term debt	42,815	56,444	38,984	44,237
Sinking fund	3,579	3,742	3,099	3,090

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions and may not represent the amounts that could be realized upon settlement.

All long-term debt obligations and long-term receivables are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

Fair values of other long-term obligations approximate their carrying values. These were estimated using current discount rates.

18. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation. The prior year's financial statements were audited by another firm of Chartered Accountants who provided their unqualified audit report dated January 31, 2002.

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	(Thousands of Dollars)			
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term accounts receivable	$ 81	$ 100	$ 701	$ 659
Long-term debt	42,815	56,444	38,984	44,237
Sinking fund	3,579	3,742	3,099	3,090

The estimated fair values of these financial instruments have been determined based on the following methods and assumptions and may not represent the amounts that could be realized upon settlement.

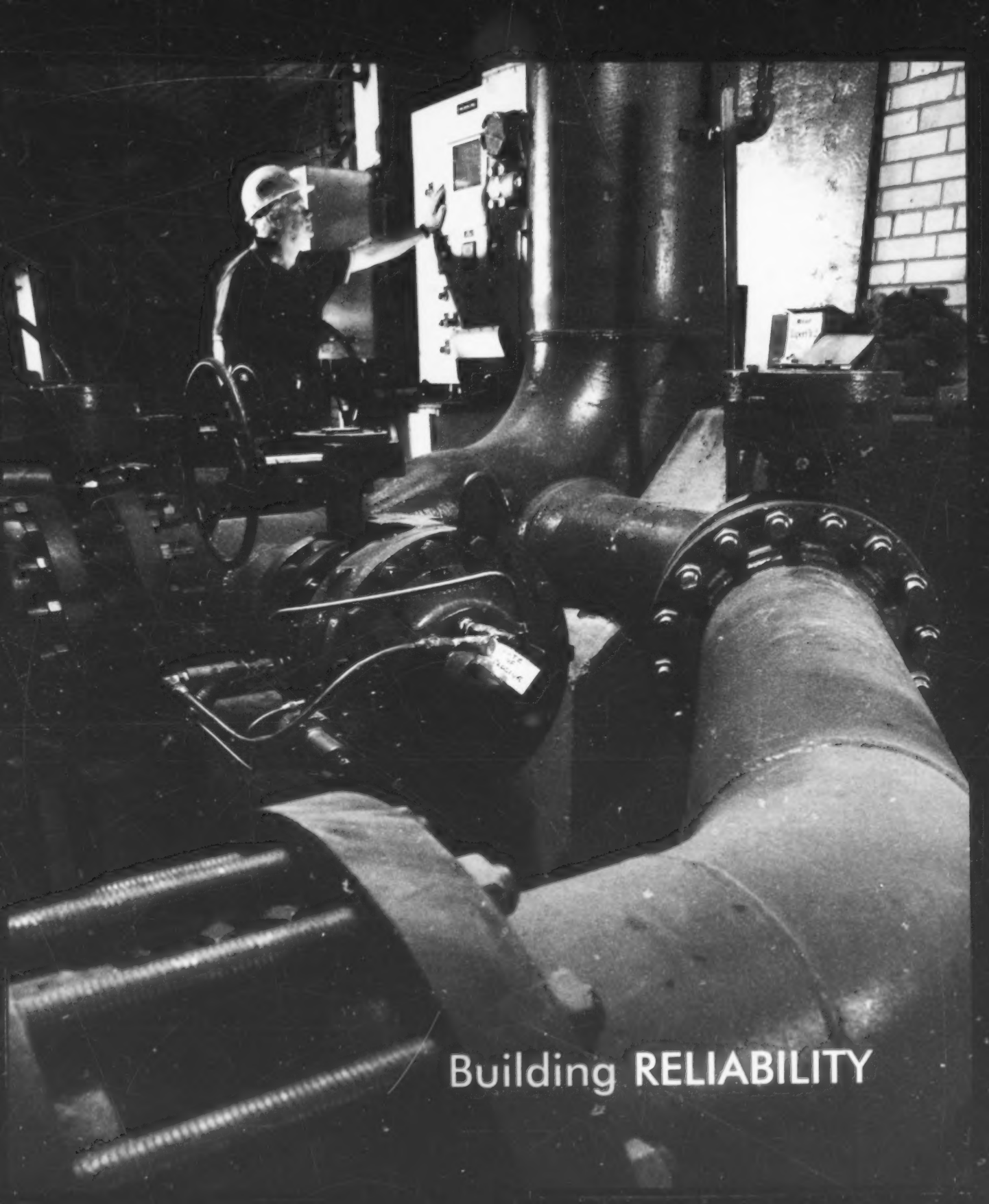
All long-term debt obligations and long-term receivables are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

Fair values of other long-term obligations approximate their carrying values. These were estimated using current discount rates.

18. Comparative Figures

Certain of the comparative figures have been reclassified to conform with the current year's presentation. The prior year's financial statements were audited by another firm of Chartered Accountants who provided their unqualified audit report dated January 31, 2002.

Photo: Rod Kennard, Senior Technician, monitoring flow of SaskWater's pumps at SaskPower's Queen Elizabeth pumping station near Saskatoon.


Building RELIABILITY

Discontinued Operations

The policy areas and programs in this section were transferred to the Saskatchewan Watershed Authority effective October 1, 2002. Therefore the following information covers the period from January 1 to September 30, 2002.

Managing Groundwater

Primarily as a result of the drought in 2002 there was an abnormally high demand for groundwater information with over 1,970 requests handled from January 1 to September 30. In spite of this high volume, our goal of same day service was maintained for the vast majority of enquiries. During the reporting period, SaskWater issued 43 investigation permits, 9 approvals to construct and 54 approvals to operate groundwater works.

Another major accomplishment in 2002 was the initiation of our groundwater resource report consolidation project. The pilot project is being done in the Rural Municipality of Piapot, following which the project will expand to a regional scale starting with the Swift Current (72J) 1:250,000 National Topographic System map sheet. These reports represent the first attempt in this province to summarize the state of knowledge of groundwater resources in an area. This project will be carried forward by the Saskatchewan Watershed Authority and the Saskatchewan Research Council.

Managing Surface Water

Operation of water resource infrastructure - Following the dry conditions of 2001, Lake Diefenbaker was operated in a conservation mode through the early part of 2002. Significant rainfall in the Alberta headwaters in mid-June allowed for downstream releases to be increased into the desirable range as well as allowing the reservoir to fill within 0.3 metres of the full supply level (556.86 metres). In the weeks following the June rains, releases were ramped up to the plant capacity of the Coteau Creek Generating Station in order to regulate water levels to meet the target of not exceeding reservoir levels of 555.0-555.3 metres prior to July 1, 2002. This target has been established through discussions with the Canadian Wildlife Service, Saskatchewan Environment and SaskPower to support the piping plover. The water level on July 1, 2002 was 555.25 metres.

Drought conditions carried over from 2001 through much of the province. The same mid-June rains that fell in southern Alberta also brought relief to the southern grainbelt of Saskatchewan. Levels in irrigation, domestic, and municipal reservoirs generally showed some improvement, particularly in the southwest. Other portions of the province, notably in the west central, northwest, and northeast portions of the grain-

belt remained in the grip of the drought through the reporting period. Further north, rainfall in late July improved streamflows and lake levels in the Churchill, Reindeer and Athabasca watersheds.

Despite the drought conditions, lake levels along the Qu'Appelle system were maintained in their target recreational ranges for most of the summer season, primarily through the release of water from Lake Diefenbaker into the Qu'Appelle River. Unauthorized removal of stoplogs from the Prairie Farm Rehabilitation Administration owned control structures at Crooked Lake and Round Lake in mid-May, combined with low natural streamflows threatened to keep these two lakes below their target ranges for the summer. However, with the co-operation of the local First Nations who allowed the logs to be re-installed, combined with the mid-June rains, these two lakes rose to their normal summer levels. Flows in the Qu'Appelle River were curtailed in August due to work being done by PFRA to rehabilitate their control structure near Craven. The Craven control structure is used to assist in the regulation of the level of Last Mountain Lake and the flow in the Qu'Appelle River between Craven and the Fishing Lakes.

Mitigation of flood risk - An Emergency Preparedness Plan (EPP) for Gardiner Dam was completed in 2002. The EPP documents the actions to be taken in the event of an emergency at Gardiner Dam, ranging from high flood flow conditions to the unlikely situation of complete dam failure.

As part of minimizing the exposure of Saskatchewan residents to flood risk, estimated peak water levels for all cottage subdivisions around Fishing Lake were recalculated based on the 1997 flood experience where hundreds of cottages were destroyed or affected by high water levels. This work was an extension of the routine practice of SaskWater providing estimated safe building levels to Saskatchewan Government Relations and Aboriginal Affairs for their review of subdivision proposals. From January through September 2002, safe building levels were provided at 73 locations throughout the province.

As part of ensuring that Saskatchewan's infrastructure considers the risk of flood damage, estimated peak flows are provided to the department of Highways and Transportation and to Rural Municipalities for use in the design of stream crossings. Seventy-four such peak flow estimates were provided between January and September 2002. To help ensure sustainable fish populations, maximum flows to allow fish passage were also provided for those crossings over fish-bearing streams.

The province has established Reservoir Development Areas around seven provincially

owned reservoirs. SaskWater administers these areas to ensure that any development within them is compatible with the risks of flooding, shoreline erosion, and large-scale bank slumping associated with reservoirs. To the end of September, 44 development permits were processed under the RDA provisions of **The Environmental Management and Protection Act.**

A number of Saskatchewan communities are vulnerable to flooding. In 2002 technical studies were carried out to determine the potential flood levels through the eastern portion of the Town of Humboldt.

Inventory of Saskatchewan Water Resources - A network of approximately 300 stations monitors streamflows and lake levels across the province. SaskWater directly owned and operated about 150 of those stations with the remainder operated in co-operation with Environment Canada.

Represent Provincial Interests - In June 2001, SaskWater joined with Alberta Environment in studying the feasibility of the Meridian Dam project. The study was completed in 2002. Work done by SaskWater demonstrated that the project would reduce the average annual volume of flow received by Saskatchewan from Alberta on the South Saskatchewan River, although the existing provisions of the apportionment agreement would continue to be met. The consultant's final report also indicated a very unfavourable cost-benefit ratio for the project. In March 2002, the Minister Responsible for the Saskatchewan Water Corporation and the Alberta Minister of Environment indicated that the project would not proceed.

Allocate, Approve, and Regulate Water Use and Works - To ensure that authorized water use projects receive a sustainable water supply, SaskWater investigates the water supply potential for each proposed surface water project. Water uses by authorized projects both upstream and downstream are considered in these investigations. In the 2002 reporting period, 21 such investigations were completed. During the reporting period, SaskWater issued 95 approvals to construct works, 298 approvals to operate works and 738 temporary permits to use water for oil and gas exploration activities.

Managing Infrastructure

Water Management Infrastructure - SaskWater was responsible for the operation, maintenance and security of 43 water control structures throughout the province, as well as approximately 130 kilometres of channel conveyance works. Principal among the water control structures were Gardiner, Qu'Appelle River, Rafferty and Alameda Dams.

Discontinued Operations

As part of its program to upgrade the safety of its water management infrastructure, SaskWater completed the construction of a new concrete service spillway at the Avonlea Dam. This new spillway possesses approximately three times the hydraulic capacity of the original structure. In September, a contract to restore the design freeboard at Rafferty Dam was tendered and awarded. Rehabilitation work was also undertaken at the following projects:

- Buffalo Pound Dam,
- Emma Lake Diversion Channel,
- Pike Lake,
- Round Lake (Sinfield Reservoir), and
- West Poplar Dam.

Dam safety investigations and project enhancements were undertaken at:

- Gardiner Dam,
- Cowan Dam,
- Darmody Dam,
- Hugonard Dam,
- Katepwa Weir,
- Star City Dam,
- Stelcam Weir,
- Teepee Creek Dam,
- Theodore Dam,
- Upper Qu'Appelle Channel and
- Wascana Weir.

During the first three quarters of 2002, approximately $ 3.1 million was spent on dam safety and project rehabilitation work, and approximately $0.96 million was spent on project surveillance, operation and maintenance activities.

Water Control Program - SaskWater prepared and tendered on behalf of Conservation and Development Area Authorities, three rural water development projects including lake stabilization works at Jansen Lake, and the Tiny East Flood Control and Carrot River West Flood Control Projects. Construction on all three projects was initiated in the autumn. Earlier in 2002, SaskWater designed and oversaw the replacement of a bridge by a culvert structure, on the Petaigan South Flood Control Project.

Discontinued Operations

Regional Operations

Drainage Complaints – As of January 1, 2002, there were 63 outstanding drainage complaints. A further 17 complaints were received in the period January 1 to September 30, 2002. In 34 cases, SaskWater issued a decision or order. A further 19 complaints were withdrawn. As of September 30, 2002, there were 27 complaints outstanding.

Work with Partners and Stakeholders – SaskWater regional offices worked with local and provincial groups, municipal governments and other government departments and agencies on a range of projects and issues, including:

- Rowatt Flood Control Project (Sherwood Conservation Area Authority)
- Knox-Lakeview Flood Control Project (Souris Conservation Area Authority)
- Formation of the Swift Current Creek Watershed Stewards
- Formation of the Last Mountain Lake Stewardship Group
- Jansen Lake Stabilization Project (Rural Municipality of Leroy)
- Tiny East Extension Project (Buchanan Conservation Area Authority)
- Paid Conservation Easement Pilot Program (Ducks Unlimited / Saskatchewan Environment)
- Swan Lake Basin Management (Local citizens / Saskatchewan Environment / Saskatchewan Agriculture, Food and Rural Revitalization / Government of Manitoba)
- Possible formation of water stewardship group for Wakaw Lake (Rural Municipality of Hoodoo / Town of Wakaw / Lake resort community)
- Carrot River West Flood Control Project (Moose Range Conservation and Development Area Authority)
- Spruce River Diversion Project (local citizens)
- Public education regarding water levels in Murray and Jackfish Lakes (Jackfish Lake Watershed Association)
- Ganie Flood Control Project

Rural Water Quality Advisory Program: SaskWater samples and analyzes water from private rural water supplies and advises residents on health and aesthetic implications and potential treatments. During the reporting period 238 rural residents were provided with analysis and advice.

Board of Directors

Seated Left—Honourable Ron Osika, Minister Responsible for SaskWater and Chair of the Board
Seated Right—Honourable Mark Wartman, Minister of Highways and Vice-Chair of the Board
Standing, left to right—Donnett Elder, Dan Palsich, Dale Bloom, Joe Hordyski, Dennis Zerr, Murray Westby, Stuart Kramer
Seated, left to right—Frank Fox, Stephen Helfrick, Susan Anholt

Board of Directors

Honourable Ron Osika, Chair

Honourable Mark Wartman, Vice-Chair

Donnett Elder

Dan Palsich

Joe Hordyski

Dennis Zerr

Murray Westby

Stephen Helfrick

Susan Anholt

Frank Fox

Stuart Kramer, President of SaskWater
Dale Bloom, Corporate Secretary to the Board

Corporate Governance

A. Authority

SaskWater is a statutory Crown corporation which is governed by **The Saskatchewan Water Corporation Act.** The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. The Chair of the Board of Directors is the Minister Responsible for SaskWater. The Vice Chair of the Board and the Chair function as links between the Corporation and Cabinet, as well as the Provincial legislature.

B. Board Responsibilities

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to SaskWater's mandate. The Board met eight times during fiscal 2002.

C. Committees

The Board established the following two committees to assist in discharging specific areas of Board responsibility:

• Audit and Finance Committee

Chair: Dennis Zerr Murray Westby Dan Palsich

The Audit and Finance Committee mandate is to assist the Board of Directors in meeting their responsibilities with respect to financial reporting, internal control and accountability. In addition, it ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan and policy objectives.

• Governance Committee

Chair: Donnett Elder Susan Anholt Dan Palsich

The Governance Committee is responsible for the development and maintenance of SaskWater's corporate governance practices. Among other things, its duties include evaluating the performance of the Board and CEO and establishing appropriate board and board committee structure, composition and mandate.

Corporate Governance

D Governance Practices

SaskWater's approach to corporate governance practices is substantially consistent with the guidelines set forth in the Canadian Institute of Chartered Accountants (CICA) handbook – Guidance for Directors, Governance Processes for Control, which guidelines were adopted by the Board of Governors of the Toronto Stock Exchange. These guidelines address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskWater's corporate governance practices are benchmarked against the Toronto Stock Exchange (TSX) Guidelines in the following Governance Scorecard.

TSE Corporate Governance Committee's Guidelines	SaskWater's Corporate Governance Practices
1. The Board should explicitly assume responsibility for the stewardship of the Corporation, specifically for:	The Board of Directors has a formal mandate with responsibility to function as stewards of the Corporation.
(a) Adoption of a strategic planning process.	One of the Board's principal duties is to provide leadership in setting the Corporation's long-range strategic direction and to approve the Corporation's overall strategic plan and performance management plan. The Corporation's comprehensive strategic planning process results in the annual review and approval by the Board of the Corporation's strategic plan, annual operating and capital budget and financial plan, and performance management plan. In addition, the Board conducts an annual two-day comprehensive strategy session with Senior Management, at which the Board reviews business plans, and short-term and long-term objectives for the Corporation, including discussing and approving strategies to meet these objectives. Consistent With TSE Guidelines: **Yes**
(b) The identification of the principal risks of the Corporation's business and ensuring the implementation of appropriate systems to manage these risks.	The Board identifies the principal risks of the Corporation on an annual basis and monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks. Consistent With TSE Guidelines: **Yes**
(c) Succession planning, including appointing, training and monitoring senior management.	SaskWater is in the process of developing a succession plan for senior management. Consistent With TSE Guidelines: **Partially**
(d) A communications policy for the Corporation.	Although there is no formal written policy, SaskWater is committed to the principles of transparency, openness, honesty and timeliness in communication with its shareholder, employees, stakeholders and the public. Consistent With TSE Guidelines: **Yes**

(e) the integrity of the Corporation's internal control and management information systems.	The Audit and Finance Committee is responsible for the financial reporting, internal control and accountability of the Corporation. This Committee reviews the integrity of the internal controls and financial management information systems in conjunction with the external auditors. Consistent With TSE Guidelines: **Yes**
2. The Board of Directors of every Corporation should be constituted with a majority of individuals who qualify as unrelated directors (i.e. one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the directors ability to act with a view to the best interest of the Corporation, other than interests and relationships arising from shareholding).	There are 11 individuals on the SaskWater Board of Directors. Stuart Kramer, President, is the only related Board member. ("Unrelated" Board members do not receive any kind of remuneration from the Corporation other than fees and compensation paid for performance of responsibilities as Directors and committee members.) Consistent With TSE Guidelines: **Yes**
3. Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors).	SaskWater is a statutory Crown corporation and does not have any share capital. Consistent With TSE Guidelines: **N/A**
4. The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director.	Ron Osika, Chair: UNRELATED Minister Responsible for SaskWater Minister of Government Relations and Aboriginal Affairs Mark Wartman, Vice-Chair: UNRELATED Minister of Highways Susan Anholt: UNRELATED Independent business person Donnett Elder: UNRELATED Independent business person Frank Fox: UNRELATED Senior Technologist, Saskatchewan Watershed Authority Past-President, Local 820, CEP Mr. Fox was a related Director until October 1, 2002. When Saskatchewan Watershed Authority was formed on that date, his employment moved to the Authority from SaskWater. Stephen Helfrick: UNRELATED Independent Business Person

Corporate Governance

	Joe Hordyski: UNRELATED Independent Business Person Dan Palsich: UNRELATED Retired Educator Murray Westby: UNRELATED Independent Business Person Dennis Zerr: UNRELATED Manager, SaskTel Consistent With TSE Guidelines: **Yes**
5. The board of directors of every Corporation should appoint a committee of directors composed exclusively of outside directors, ie. Non-management, the majority of whom are unrelated directors, with responsibility to proposing to the full board new nominees to the board and for assessing directors on an on-going basis.	The Governance Committee has responsibility to make recommendations to the Board on the size, composition and required qualifications of the Board of Directors. All of the Governance Committee members are outside, unrelated directors. Consistent With TSE Guidelines: **Yes**
6. Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors.	The Governance Committee is responsible for implementation of an annual performance evaluation of the Board of Directors, each Committee, the Chair and individual Directors. The process is conducted by an outside third party consultant. The results are summarized and reported to the Board of Directors, as well as the Crown Investments Corporation Board of Directors. Consistent With TSE Guidelines: **Yes**
7. Every Corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.	SaskWater provides orientation material to new Board members. As part of the ongoing training for Board members, Crown Investments Corporation of Saskatchewan has facilitated training sessions for Board members in 2002. Consistent With TSE Guidelines: **Yes**
8. Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.	SaskWater's present Board size of 11 members brings the necessary skills and experience to the Board decision making to form an effective decision-making body. SaskWater's Governance Committee is responsible for annually assessing the size, composition and required qualifications of the Board to determine whether it has all the necessary constituents for effective decision-making. Consistent With TSE Guidelines: **Yes**

9. The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.	The Governance Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation for approval any proposed adjustments to compensation levels. Crown Investments Corporation of Saskatchewan is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors. Consistent With TSE Guidelines: **Yes**
10. (a) A committee should be generally composed of non-management directors. (b) The majority of committee members should be unrelated.	Committees are comprised solely of non-management and unrelated members. Consistent With TSE Guidelines: **Yes**
11. Every board of directors should expressly assume responsibility for or assign to a committee of directors the general responsibility for developing the Corporation's approach to governance issues. This committee would, amongst other things, be responsible for the Corporation's response to these governance guidelines.	Committee members are unrelated. The Governance Committee is mandated to be responsible to the Board for governance of SaskWater, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee has reviewed and approved this report. Consistent With TSE Guidelines: **Yes**
12. (a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO involving the definition of the limits to management's responsibilities.	The Board of Directors has approved policies for the execution of documents and expenditure authorities for the CEO and Senior Management. These policies outline the limits to Senior Management's authorities and the levels for which matters must receive Board of Directors approval. Consistent With TSE Guidelines: **Partially**
(b) The board should approve or develop the Corporation's objectives which the CEO is responsible for meeting.	The Governance Committee annually reviews with the CEO the performance management plan that sets performance targets for the Corporation. Consistent With TSE Guidelines: **Yes**
13. Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management.	The Board structure at SaskWater is such that the Chair of the board is unrelated. The Board meeting procedures are such that at each meeting the Board conducts an in-camera session whereby Management, including the President and CEO, are excused from the meeting. Consistent With TSE Guidelines: **Yes**

Corporate Governance

14. The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control.

All members of the SaskWater Audit and Finance Committee are outside Directors.

SaskWater's Audit and Finance Committee has a mandate to:

- Review with Management and external auditor, and recommend to the Board for approval, the Annual Audited Financial Statements of the Corporation.
- Review and recommend for approval of the Board the Management discussion and analysis section of the Annual Reports, as well as any other disclosure documents containing financial statements of the Corporation.
- Review the semi-annual financial statements.
- Review annually the results of the external auditors examination of the Corporation's financial record.
- Review the results of the reports of the external auditor with respect to the state of the Corporation's internal control systems.
- Review the quality of service and the performance of the external auditor and recommend the appointment or reappointment of an external auditor.
- Review financial forecasts and changes to the annual depreciation rates, major investments and the insurable risks and insurance coverage of the Corporation.
- Review annually the efficacy of the Corporation's policies relating to execution of documents and expenditure.

Consistent With TSE Guidelines: **Yes**

15. The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. The engagement of an outside advisor should be subject to the approval of an appropriate committee of the board.

The Board or any Committee of the Board may obtain the advice and counsel of external advisors if, in the opinion of the Board or Committee, it is necessary in order to properly discharge their function, duties and responsibilities that such advisor be engaged.

Consistent With TSE Guidelines: **Yes**

Corporate Directory

SaskWater Executive

Stuart Kramer, President
Greg Argue, Vice President, Marketing and Business Development
Bob Wheatley, Vice President, Engineering
Tom Gehlen, Vice President, Water Supply and Treatment

Divisions

Marketing and Business Development
Felechia Brodie, Manager, Marketing and Communication
Ron Blackwell, Manager, Policy, Planning and Quality Management
Karen Daku, Senior Account Manager, Business Development

Engineering
Jeff Mander, Manager, Project Engineering
Glen Gillis, Manager, Northern Engineering
Eric Light, Manager, Process Refinement and Innovation
Shahid Khan, Manager, Water and Wastewater Engineering

Water Supply and Treatment
Al McMillan, Director, Water Treatment Operations
Mart Cram, Director, Water Supply and Transmission

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